

Northelia v 1.5

NZ Banking Greenfields Institutional Start Up

Submission to the 2024 Commerce Commission Banking Market Study

This submission is focused on explaining to the Market Study Analysts what it would take to secure a vehicle or vehicles which would create competition for Kiwi Consumers and break up the cosy club Oligopoly of Aussie banks in NZ

We urge the ComCom to focus the rest of the enquiry *on what it would take to fix this broken market in NZ consumer banking.*

- 1) Open banking regulated and a firm date for a start (* and cost allocations which are appropriate)
- 2) A target date for at least 3 challenger banks who will hold sufficient capital to take at least 33% market share cumulatively by 2030
- 3) Introduction of severe penalties on the incumbents for further delays in open banking
- 4) An Active interest from the ComCom and MBIE in the challenger banks getting financed and a detailed prescription of how they will start, raise capital and collect customers and compete.
- 5) An active interest in wholesale money markets in which the treasury operations of ANZ and ASB work in. These are absolute barriers to entry given the scale of these incumbent organisations, their treasury market power and dominance.
- 6) We ask the Commerce Commission to improve its language and stop using the word “Maverick Bank”, and use the words “Greenfields Institutional Start up “ or “Sustainable profitable Challenger bank”. We deliver this rebuke as it needs to be respected how hard it is to raise capital for competition challengers in NZ and a Maverick anything is not an investors friend. Its not the scale of NZ which is the problem but the shear level of entrenchment and weak competition law and low expectations policy makers have of competitive markets .

A sustainable challenger bank (or a Greenfield institutional start up) must aim for the following

- New Bank operator license in Like for like challenger,
- Like for like customer ecosystem
- Like for like capital base
- Like for like wholesale distributor
- Like for Like access to wholesale money and FX markets
- Access to a sophisticated mortgage broker base with safe and real client disclosure obligations

Northelia Ver 1.5 is a group of experienced DIB (done it before) operating entrepreneurs , who have worked in the banking industry and have noted the Commerce Commission’s determination to create a proper competitive player in the NZ banking market to break inertia , lower costs and create substantial non price benefits which helps not only consumers but also taxpayers now and in the future .

Northelia is submitting in stealth, because, its executive, investors and board have “ day jobs “ , Northelia is available for confidential discussions with Govt, ComCom ,MBIE , but its not available for public exposure to lobbyists business sabotage agencies . Northelia has researched the UK , US , Swedish and Danish banking markets . Northelia is in touch and working with a major league NZ open banking tech provider.

Northelia , is advocating a once in generation private sector initiative to bring NZ owned competition in banking for NZ consumers and NZ Taxpayers

Northelia compliments the Commission for its draft 327 page report ,one of the most comprehensive reports of the last 20 years.

Noteworthy of this submission is that today’s problems in competition stem from a ridiculous decision in the early 2000s to allow National Bank to merge with ANZ

Northelia note The Commission’s report missed a vital point that there is substantial non price benefits from competition in banking , these are

- 1) Improved house hold asset allocation, meaning lower costs to governments of senior care ,
- 2) Less economic dead loss weight stalling economic performance.
- 1) Improved terms of trade with Australia on capital account

We urge the Commission not to accept pyrrhic competition solutions and accept the noise of maintaining Kiwi bank as the only solution in fixing the problem

- 1) Taxpayer shouldn’t; have to pay to fix a policy problem which has resulted in massive excessive profitability and the passing of monopoly power to Australian owned organisations.
- 2) Kiwibank is required to be government owned in perpetuity which removes access to capital . We set out the following discussion of the business case and the fair and equitable creation of a market , to enable NZ consumers and suppliers

3) OUR SUMMARY SUBMISSION IN ONE SENTENCE

“Northelia We will deliver a new like for like consumer bank with world class technology , leveraging franchise and NZ owned , this Greenfield institutional start-up will mobilise a capital base in excess of \$500 mn “

The conditions of Northelia Starting a Challenger bank are

- 1) Detailed regulation of Open Banking similar to the UK
- 2) Detailed prescribed pricing for Open Banking which works for the challengers
- 3) The Set up of a organisation similar to the UK’s organisation called Banking Competition remedies NZ limited

- 4) A published description of what a Green Fields Institutional start up bank in NZ looks like
- 5) Revised expectations of the 4 pillar policy published by the RBNZ with revised guarantee arrangements which become asymmetric in the favour of challengers
- 6) A published statement of expected incumbent reactions to a competition proposal and published penalties (including a split of incumbents assets) for abuse of market power or a SAC war by incumbents .
- 7) A fundamental review of the way mortgage brokers work. (the Commission deserves a compliment for its spotting of this dysfunction in the Mortgage market working in consumers interests) -obviously further work is required in this area .

- **Notes on the draft report**

- 1 The profitability of the banks is surrounded by a moat and a wall , monopoly rents have been used to finance barriers to entry but also cherry pick and groom new entrants to specific market segments (i.e. Heartland to Reverse mortgages and Kiwibank to low social economic customers)
- 2 The level of scale built by the erroneous merger of ANZ and National bank should not be understated not just as a barrier to entry , but also as to dominance in wholesale markets ,particularly when a SAC war is first point of defence for an incumbent bank in mortgage markets .
- 3 There is a risk the Commission creates a ½ way house in which token gestures of competition occur and consumers don't benefit , it will look like competition but the same dominance exists. Incumbent banks will work to this outcome. , many other market studies have led to this pyrrhic competition.

BARRIERS TO ENTRY FOR A LIKE FOR LIKE GREEN FIELD INSTITUTIONAL OPERATER TO ENTER NZ

- 1) Documents and policy statements the Govt is serious about creating competition in NZ
- 2) A resolution of historical weaknesses about competition legislation
- 3) Policy legislation about capital adequacy , open banking , penalties for abuse of market power ,and revoking the implied too big to fail guarantee of the ANZ bank
- 4) Where is access to wholesaling money markets for challengers
- 5) **Capital** , - published comprehension from the Commission on what will secure the capital
- 6) Detailed open banking legislation
- 7) Discussion of international best practise

Suggested next steps for Commerce Commission to attract a Greenfield institutional start up bank

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- 1) Cancel all references to Maverick bank (Swapped out to Greenfield institutional Start ups) or Sustainable Challenger Banks)
- 2) Publication of a detailed prescription on open banking will be introduced and priced
- 3) Publish a detailed understanding of how new banks will attract capital.
- 4) Start an organisation (or recommend MBIE does) called *Banking Competition Remedies NZ Ltd*
- 5) Publish new guide lines for mortgage brokers ,
- 6) Publish aggressive penalties for missing open banking targets.
- 7) Have ComCom analysts and staff Visit European Challenger banks and competition regulators.
- 8) Define how the 2 big to fail guarantee would be removed from ANZ and ASB *(by split up) and how it would be published

Thank you for considering the position of Northelia , our Exec is available for more detailed consultation

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